

DOD Moves to Implement Will-Cost and Should-Cost Management

BY GREGORY A. GARRETT AND FRANK J. BEATTY

In 2010, the Under Secretary of Defense (Acquisition, Technology, and Logistics) Ashton B. Carter directed the implementation of an internal Department of Defense (DOD) management tool to be required for all DOD programs, which he called “will-cost and should-cost management.”

In his latest memo on the subject, dated April 22, 2011, Carter stated: “My goal for this initiative is to ensure that program managers drive productivity improvements into their programs during contract negotiations and throughout program execution....”¹ While the intent of this initiative is admirable (to eliminate program cost overruns), it is the implementation of will-cost and should-cost management that is very concerning and potentially highly problematic.

In this article, we shall discuss some of the major concerns we have about the directed implementation of the will-cost and should-cost management within DOD, including:

- Lack of critical skills in the current DOD acquisition workforce to fully implement will-cost and should-cost management,

- Use of incentives only for DOD program managers to drive cost reductions may result in negative impacts to the DOD acquisitions team,
- Shortage of experienced and capable Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA) personnel to assist the DOD program managers to fully implement will-cost and should-cost management, and
- Potential negative impacts on the U.S. defense industrial base by inappropriate use of fixed-price contracts on development programs.

DOD Acquisition Workforce Lacks Critical Skills to Fully Implement Will-Cost and Should-Cost Management

As a result of numerous studies and reports conducted and published by the Government Accountability Office (GAO), Office of Federal Procurement Policy, Federal Acquisition Institute, U.S. Naval Postgraduate School, and others, it is abundantly clear that the current DOD acquisition workforce is understaffed and under-skilled to effectively implement the new will-cost and should-cost management on a large-scale basis. Each military service should be able to implement the will-cost and should-cost management with some level of success on the initial test of just five programs for each service: U.S. Army, Navy, and Air Force (see **FIGURE 1** on page 13).²

However, the real challenge will be to effectively implement will-cost and should-cost management on a large-scale basis for all DOD Acquisition Category (ACAT) I, II, and

III programs. The most critical skills needed by DOD acquisition workforce members to properly implement will-cost and should-cost management include the following critical skills:

- Cost estimating,
- Indirect cost analysis,
- Earned value management,
- Supply chain management,
- Cost/price analysis,
- Program management,
- Contract negotiations, and
- Contract administration.

It is difficult to believe that DOD will be able to effectively implement will-cost and should-cost on all ACAT I, II, and III programs because each of the aforementioned critical skills are already dramatically lacking and it typically takes many years of education and experience to master each of these critical acquisition skill areas. In addition, it is important to note that in the mid-1980s, a similar concept of should-cost management was first introduced. While initial test programs claimed significant cost savings, the original should-cost management program proved unsuccessful 25 years ago on a larger-scale DOD implementation.³

U.S. Air Force	U.S. Army	U.S. Navy
Joint Strike Fighter (F-35)	Joint Air Ground Missile (JAGM)	Joint Strike Fighter (F-35)
Global Hawk Blocks 30 & 40 (GH BLK 30 & 40)	Black Hawk (UH-60M)	Hawkeye (E-2D)
Space-Based Infrared System (SBIRS)	Ground Combat Vehicle (GCV)	Presidential Helo (VXX)
Evolved Expendable Launch Vehicle (EELV)	Paladin Product Improvement (PIM)	Littoral Combat Ship (LCS)
Advanced Extremely High Frequency (AEHF) Satellite System	NETT Warrior	Ohio Replacement System

FIGURE 1. WILL-COST AND SHOULD-COST MANAGEMENT EXAMPLE PROGRAMS

Use of Incentive Only for DOD Program Managers to Drive Cost Reductions May Result in Negative Impacts to the DOD Acquisition Team

The DOD will-cost and should-cost management initiative provides incentive to DOD program managers to “develop, own, track, and report against should-cost estimates. In doing so, they should use all relevant resources within the Department to facilitate the development of program should-cost estimates.”⁴

In theory, this plan sounds great. However, in practice we have real concerns about what measures highly competitive, type A personalities might do to drive cost reductions and to secure the support of limited critical acquisition resources with the necessary skills set to help them accomplish the required tasks listed in **FIGURE 2** on page 14.⁵

Further, exactly what type of incentives will be provided to the successful DOD program managers who drive significant cost reductions in the planned cost vs. negotiated cost, the budgeted cost vs. the actual cost, and/or the life cycle costs? Will salary increases, bonuses, early promotions, or higher performance ratings be offered only to program managers who reach their respective targeted reductions? What about providing incentives to the tens of thousands of other DOD acquisition support personnel, such as contracting officers, contract administrators, government property managers, contracting officers technical representatives, cost/price analysts, project engineers,

auditors, logistics managers, financial managers, and others?

Is it possible that if only the project managers are rewarded that the other DOD critical acquisition personnel may not be highly motivated to drive cost reductions? Further, is it possible that rewarding only project managers may prove to be divisive to teamwork and effective implementation?

Shortage of Experienced and Capable DCAA and DCMA Personnel to Assist DOD Project Managers to Fully Implement Will-Cost and Should-Cost Management

While DCAA currently has over 3,800 auditors and DCMA has over 10,000 personnel, they are already understaffed and lacking in experience and training in critical acquisition skills to meet the current needs of DOD, NASA, and other agencies they are required to support. DCAA and DCMA’s current workload involves trillions of dollars of contracts; millions of contract actions, task orders, and contract modifications; and hundreds of thousands of prime contractors and subcontractors throughout the United States and worldwide. Thus, it is hard to see how the new will-cost and should-cost management initiative will be fully and successfully implemented anytime soon on all DOD ACAT I, II, and III programs.

Potential Negative Impacts on the U.S. Defense Industrial Base by Inappropriate Use of Fixed-Price Contracts on Development Programs

In the early 1980s, in a similar well-intended effort to reduce the cost of major programs, DOD implemented an initiative to drive military contract negotiations to select and award firm-fixed-price (FFP) contracts vs. cost-reimbursement type contracts or time-and-materials contracts. Thus, many government prime contractors had to make the tough decision to either not compete for DOD contracts or to accept very high risk research and development efforts on a FFP contract. As a direct result, thousands of government prime contractors and subcontractors accepted FFP contracts, and they overran the costs due to the high level of risk and cost variables on development contracts. After several years of DOD implementing this cost-reduction program, many companies went bankrupt or were essentially forced to merge with other companies just to survive.

Years later, after numerous GAO reports, National Defense Industrial Association studies, and various commissions, DOD realized it had made a huge mistake that resulted in a significant erosion of the U.S. defense industrial base. Let’s hope that does not ever happen again.

Summary

In summary, our major concerns with DOD’s planned implementation of will-cost and should-cost management include:

- Scrutinize each contributing ingredient of program cost and justify it. Why is the program as reported? What reasonable measures might be taken to reduce cost?
- Challenge the basis for indirect costs in contractor proposals.
- Track recent program cost, schedule, and performance trends and identify ways to reverse negative trends.
- Benchmark against similar DOD programs and commercial analogues (where possible) and against other programs performed by the same contractor or in the same facilities.
- Promote supply chain management practices to encourage competition and incentivize cost performance at lower tiers.
- Reconstruct the program (government and contractor) team to be more streamlined and efficient.
- Identify opportunities to breakout government-furnished equipment versus prime contractor-provided items.
- Identify items or services contracted through a second- or third-party vehicle. Eliminate unnecessary pass-through costs by considering other contracting options.
- In the area of testing:
 - Take full advantage of integrated development and operational testing to reduce overall cost of testing; and
 - Integrate modeling and simulation into the test construct to reduce overall costs and ensure optimal use of national test facilities and ranges.
- Identify an alternative technology/material that can potentially reduce development or life cycle costs for a program. Ensure the prime product contract includes the development of this technology/material at the right time.

FIGURE 2. INGREDIENTS OF SHOULD-COST MANAGEMENT

- The lack of critical skills in the current DOD acquisition workforce to fully implement will-cost and should-cost management,
- The use of incentives only for DOD program managers to drive cost reductions may result in negative impacts to the DOD acquisitions team,
- The shortage of experienced and capable DCAA and DCMA personnel to assist the DOD project managers to fully implement will-cost and should-cost management, and
- The potential negative impacts on the U.S. defense industrial base by inappropriate use of fixed-price contracts on research and development programs.

implementation of will-cost and should-cost management. **CM**

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ENDNOTES

1. Office of the Secretary of Defense, Memorandum: "Joint Memorandum on Savings Related to 'Should Cost'" (April 22, 2011).
2. Under Secretary of Defense, Memorandum for Acquisition and Logistics Professionals, subject: "Implementation of Will-Cost and Should-Cost Management" (April 22, 2011).
3. Gregory A. Garrett and Rene G. Rendon, *U.S. Military Program Management: Lessons Learned and Best Practices* (Management Concepts, 2007).
4. Under Secretary of Defense, *op. cit.*
5. *Ibid.*

Clearly, DOD needs to reduce costs associated with their ACAT I, II, and III programs; however, we have identified some major concerns about the effective full

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